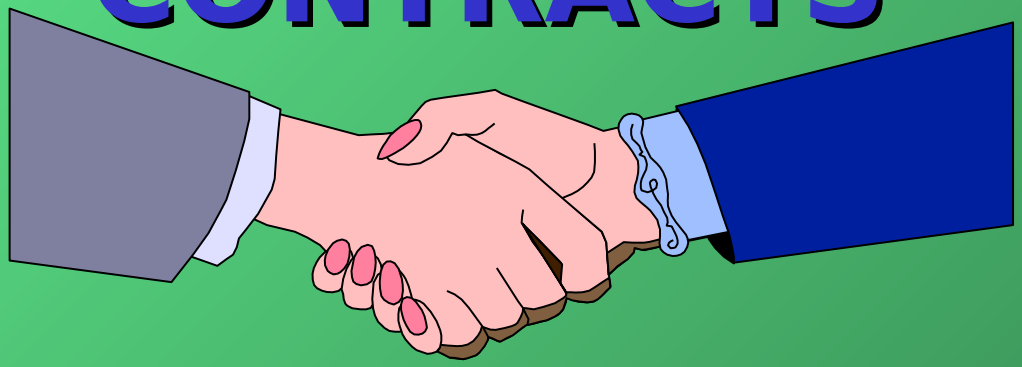
ENERGY SAVINGS PERFORMANCE CONTRACTS



Army World-Wide Workshop on Competitive Sourcing (A-76), Privatization, and Energy Savings Performance Contracting (ESPC)

Atlanta, GA

27-30 March 2000

Energy Savings Performance Contracts

- ESPC Concept
- Army Implementation
- Procurement Issues

ESPC Concept

- **Problem: Lack of Sufficient Appropriated Funds for Real Property Maintenance & Repair**
  - **RPM accounts have consistently been underfunded**
  - **Federal mandates to reduce energy consumption**

ESPC Concept

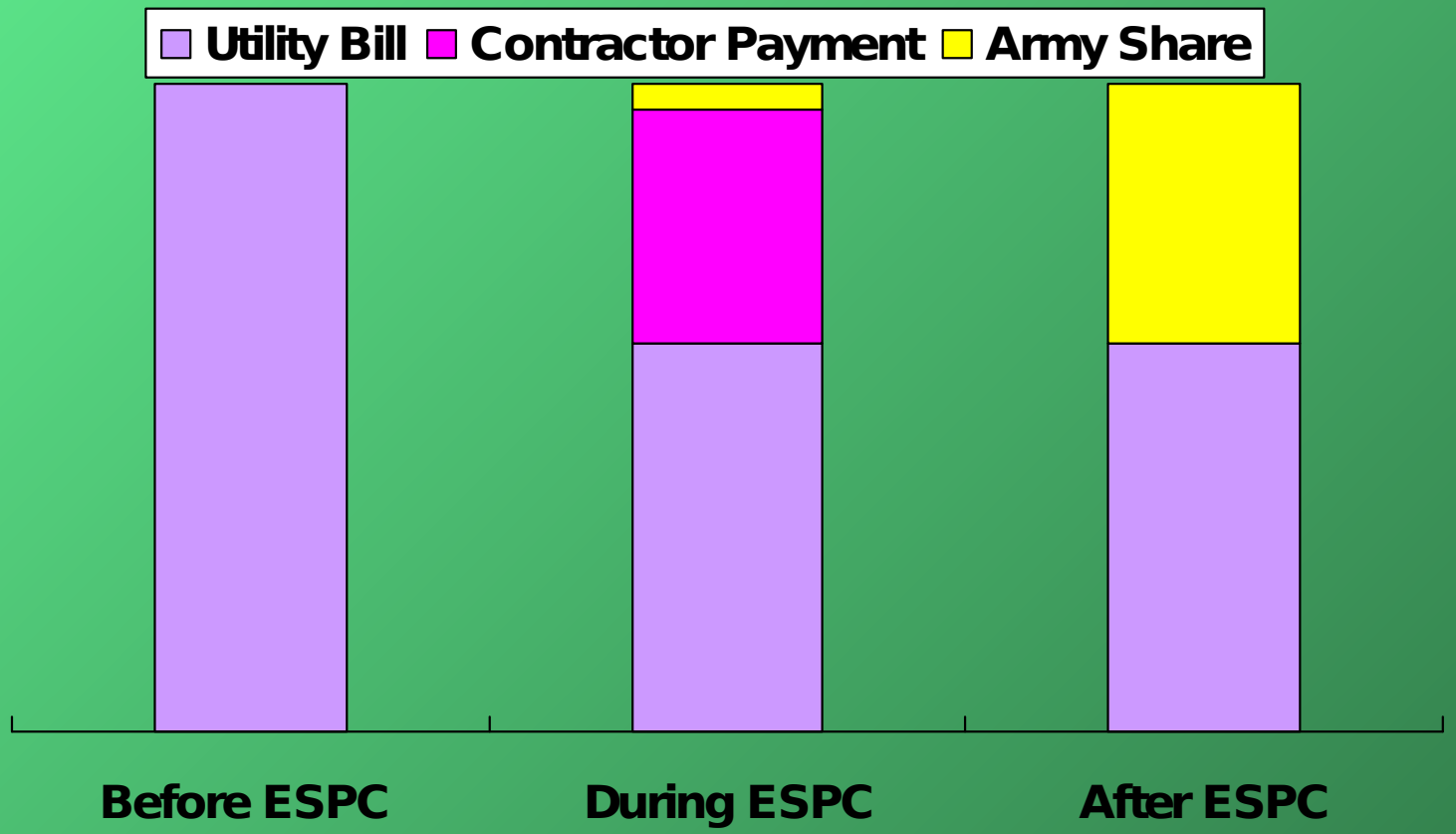
- **Solution: Alternative Financing**
  - **Use private-sector funds to make energy improvements**
  - **Use energy $ saved to repay costs**

What is ESPC?

- **ESPC contracts are partnerships with private industry**
- **Contractors implement, operate, and maintain energy conservation measures at their expense**
- **Government pays only when savings are realized**
  - **payments cannot exceed savings**

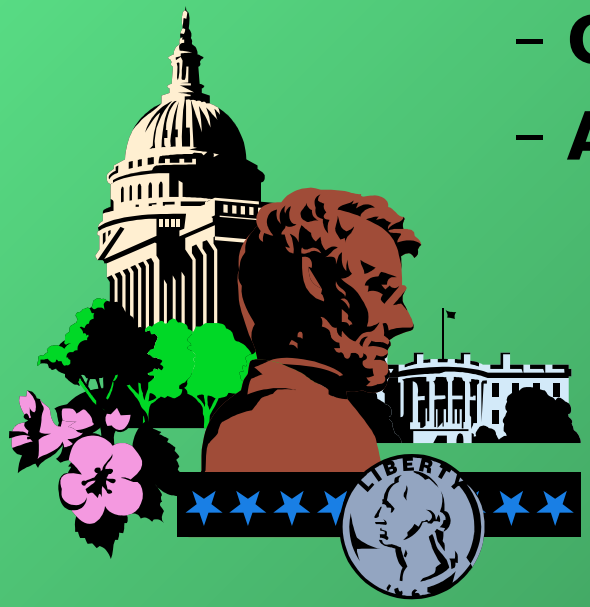
ESPC Concept

ESPC Reallocates the Utility Bill



Army Implementation

- **OACSIM**
  - **Army ESPC Policy**
  - **Implementation Guidance**
  - **Congressional Notification**
  - **Answer Questions**



Army Implementation

- **Contract Methods Used**
  - **Individual Projects**
  - **Bundling**
  - **Post Wide Contracts**
  - **Indefinite Delivery/Indefinite Quantity Contracts**

Army Implementation

- **Variety of Contract Vehicles Available**
  - **Corps of Engineers (Huntsville & Districts)**
  - **Department of Energy (DOE) -**
    - **Regional**
    - **Technology Specific**
  - **MACOM or Installation Specific**
    - **MEDCOM**
    - **MDW**
  - **Defense Energy Support Center (DESC)**

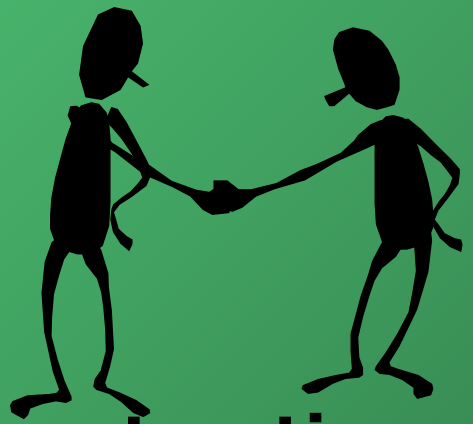
PROCUREMENT ISSUES

- **Best value determination**
- **Funding**
  - **No funds* required prior to contract award**
  - **Repayment required and commences after installation phase is complete**
- **Congressional Notification required**

* Funds must be available to make current year contract payments

PROCUREMENT ISSUES

- **Government - Contractor Relationship**
  - **Partners v. Adversaries**
  - **Shared Risk**
- **Ownership Issues**
  - **Mods during construction**
  - **Sole source changes after construction**
  - **Repairs/replacement during remainder of contract**



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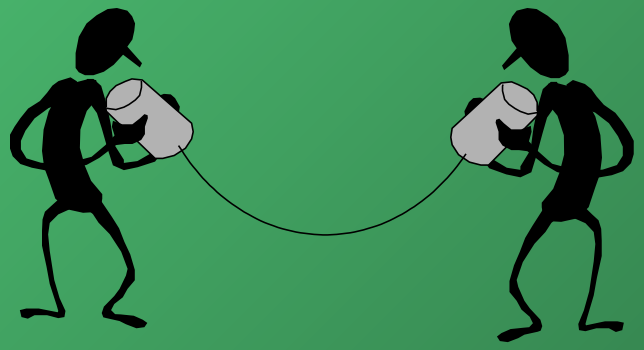

Backup Slides

ESPC AUTHORIZATION

- **National Energy Conservation Policy Act**
  - **(42 U.S.C. 8287) as amended by Energy Policy Act of 1992 (EPAct 92)**
- **Executive Order 13123**
  - **requires agencies to reduce energy consumption from 1985 baseline by 30% by 2005, and 35 % by 2010.**
  - **encourages use of Alternative Financing methods such as ESPC.**

CONTRACTOR PAYMENT PROCESS

- **Contractor's payment is based upon:**
  - **Interest rates/overhead established at time of contract award**
  - **Services, equipment, and construction provided**
  - **Reduction of energy and ancillary costs (savings)**
  - **Method for determining savings (Measurement and Verification or M&V)**
  - **Negotiated sharing arrangement (i.e. 95%/5%)**

CONTRACTOR PAYMENT PROCESS

- **Measurement and Verification**
  - **As a minimum, savings are verified annually with facility**
    - **Some facilities verify monthly**
  - **If the savings are less than expected, the Contractor may receive a reduced payment**

CONTRACTOR PAYMENT PROCESS

- Contractor submits invoices on a monthly basis to facility personnel.
- Contractor submits all documents, data and calculations to support invoices.
- Facility identifies funds in J and K accounts to pay debt to contractor.
- Facility pays contractor invoices using the same procedures as any other utility bill.

ESPC v. Utility Partnerships

ESPC

- max contract period = 25 years
- positive cash flow guaranteed
- Maintenance & M&V required
- Congressional Notification required
- Competitively select qualified contractor

Utility Partnerships

- max contract period = 10 years
- positive cash flow not guaranteed
- Maintenance & M&V optional
- No Congressional Notification required
- Negotiate with local utility company